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SUBJECT: IMF TEAM HEARS LITTLE FROM GRC BUT AN EARFUL FROM DONORS

Classified By: Pol/Econ Chief Scott Ticknor for reasons 1.4 (d) and (e)

1. (C) Summary: A joint IMF/World Bank/African Development Bank (ADB) team visited Cameroon from September 1-12 for the final assessment of its three-year program, which is scheduled to end in January 2009. The Government of Cameroon (GRC) did not indicate to the team whether it wants a follow-on program. The Fund team left generally satisfied with progress on budget and financial sector reform, and anticipated increased real non-oil GDP growth from an estimated 3.9% in 2007 to a predicted 4.6% in 2008. They shared with donors their concerns about the government's recent purchase of a costly airplane and with off-budget "special expenses". In several meetings with the visiting Fund team, reps from the World Bank, ADB, and bilateral donors voiced growing frustration with governance, the economy, and future prospects for the country. The saw a continued role for the IMF and argued for a greater sense of urgency from the government. Unfortunately, this visit appeared to do nothing to press the government onto a more urgent economic path. End summary.

The Future of the IMF Program

2. (C) The recent IMF/World Bank/ADB visit was the sixth and final review under a three-year Fund program begun in 2006 and scheduled to end in January, 2009. The Fund team told diplomats that the IMF remains willing to stay engaged in Cameroon; however, the GRC is still reportedly deliberating and still working on its Poverty Reduction Growth Strategy (key to a future IMF program). To date it has not indicated to the Fund what if anything it wants as a follow-on program. The team said there would be another IMF Mission in February/March 2009 for Article Four discussions. If the Fund stays engaged in Cameroon, it will stress progress on macroeconomic and public finance stability, expenditure controls, financial sector reform, and improvements in public sector management. The Fund and Bank have stressed the need for a planning process that involves consultations with civil society.

The Fund on the Economy

3. (C) The IMF team was generally satisfied with the state of the Cameroon economy. They forecast 4.6% real GDP growth (non-oil sector) in 2008 and around 5% growth in 2009. The external debt is at reasonable levels and the government has continued to reform public finance management, according to the IMF. The team said they and the GRC agreed on 2009 budget priorities: agriculture, health, education and energy. The Fund had concerns about the GRC's recent

purchase of a \$69.5 million airplane, whose intended use is unclear but was ostensibly purchased for use by CAMAIRCO (the newly formed national airline, following the liquidation of CAMAIR). The IMF also questioned the GRC's "special expenses" off-the budget account and has asked for more information about this item. There are also continuing concerns about arrears from SONARA, the state owned oil refinery. They criticized the budgetary impact of the GRC's March decision to increase public salaries, as well as poor progress on the privatization of CAMTEL and CAMAIR, low public and private sector investment, poor governance, and a weak business environment.

Donor Woes: The Sour IFIs

14. (C) In a series of meetings with the Fund team, donors and G-8 country local Ambassadors delivered a message of rising frustration about the current state of affairs in Cameroon. The World Bank Res Rep pointed to the deteriorating quality of expenditures and the increased difficulty in getting government data. The government has lots of cash but "accounting is getting sloppy," she said, noting what she saw as the government's weakening commitment to public finance reform and the IMF program. The government had yet to complete its Poverty Reduction Strategy Program, making planning difficult. She praised some commitment to private sector development but pointed to the chronic lack of coordination or communication between ministries or within the presidency. Bank staff also highlighted serious business climate problems, noting that Cameroon dropped six points in

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the Bank's just published 2009 Doing Business Report ranking.

15. (C) The African Development Bank rep agreed that budget execution was very weak, on a par with post-conflict countries. The GRC is not interested in economic reforms and lacks an economic strategy, he said. While there has been some advancement in road building, he saw little progress in agriculture or the electricity sector. Government data was poor and it was getting increasingly difficult to understand the accounting of petroleum income. It was unclear how to stimulate higher growth, he concluded.

The Cynical Europeans

15. (C) The British High Commissioner (and G-8 Coordinator) was very pessimistic, blaming corruption, conservative preservation of the regime, and centralized power structures for stymieing initiative and confounding coordination within the Cameroon government. The GRC wants prosperity but is unwilling to make the changes needed to get it, he stated, noting that "the government can't rely on the everlasting patience of the people." The economic measures taken after the February riots had not worked; the few reformist voices in government were not supported enough. Cameroon suffers from "a massive lack of urgency," he concluded.

16. (C) The Spanish Ambassador agreed that Cameroon lacks the political will needed to attract investment. She blamed corruption and internal political wrangling, noting that there are many more Spanish companies investing in Gabon than in Cameroon.

17. (C) The German Charge voiced growing frustration with the GRC's lack of political will to move forward across a wide range of development projects. The EU Rep decried the GRC's total lack of responsiveness in efforts to advance \$60 million in EU projects. "We can't get the government interested in projects they asked for...there is zero dialogue with the Finance Minister," he said. Greek Ambassador admitted that Greece has almost no interest in Cameroon because of the inability to see tangible results

from its relationship. He admonished the group that "political stability should not be confused with political stagnation - Cameroon's stability is highly suspect." He had low expectations for a democratic transition in 2011, when Cameroon's next elections are scheduled.

18. (C) The French DCM was new and had little to say at the G8 meeting. At an earlier technical-level meeting, the head of French Cooperation noted that the French have had some quality technical discussions with the GRC but agreed that there was a lack of political will to improve public finance management.

Other Views

19. (C) Canadian High Commissioner told the IMF team that the GRC lacked the political will to make progress on reforms and was very bad at implementing programs. He saw some "microscopic changes" in the forestry sector, which Canada supports, but the gains were fragile and would evaporate if the Minister changes, he said. He questioned whether donors are complicit by tolerating and praising the GRC. He argued for a tougher stand against the government, querying "does our aid help at all?"

10. (C) UNDP Acting Rep agreed that there was "no favorable environment for reform." She was "very pessimistic" about the GRC's commitment to fighting corruption. She thought the projected 4.6% GDP growth was unimpressive and difficult to assess without updated census data, which has been prepared but not released by the presidency. Nonetheless, the UNDP would continue to work on poverty reduction, governance, and democratization. The Japanese Ambassador was more hopeful, noting his government's desire to improve relations in Africa. Japan was interested in coming into Cameroon (he noted keen interest in Nigeria) but "there are a lot of reservations."

Comment

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11. (C) We painted a more mixed picture to the IMF team, sharing in the overall frustration with poor governance but also pointing to individual GRC officials who are reformist and some experiences on the commercial, mil-mil and other fronts where we have benefited from cooperation from the government. We praised historical progress on press freedoms and the recent successful transfer of the Bakassi peninsula, as well as a recently stepped-up government anti-corruption effort.

12. (C) It is not clear to us whether the GRC will seek a follow-on program. Prime Minister Inoni, in his mid-July meeting with Treasury DAS Lowery, said the GRC wanted to continue with a program, but many GRC officials seem to chafe at the IMF's continued role. Some in the press speculated that the government would renew the program but there is some fatigue with IMF oversight and a feeling among many observers that Cameroon no longer needs the IMF. Like most other donors in our meetings, we encouraged the IMF to remain engaged in Cameroon, as a constructive voice at the table pressing for economic reforms. The World Bank Res Rep noted the negative impact for Cameroon's credit rating and reputation if the Fund pulls out. The diplomats urged the Fund to press the GRC more forcefully on reforms.

13. (C) The Fund visit received extensive, positive press, in which they praised GRC progress on reforms and hailed the positive trend line on overall economic growth. Higher growth in the economy is encouraging, driven mainly by agriculture, services and public investment. However, the growth level is not on a par with many other African countries and not strong enough to boost Cameroon out of

poverty. Inflation is rising (the Fund revised upward its inflation estimate for 2008, from 3.3% to 4.1%; many believe it is higher, given rising costs of food); together with poor social sector investment, a growing income distribution gap, and 2.3% estimated population growth, much of the impact of this growth will not benefit the average Cameroonian.

¶14. (C) The IMF team left without pressing the GRC very hard on reforms, telling diplomats that it was not their role to push for greater political will on reforms or governance (except as it related specifically to the budget) - that was the job of bilateral donors. World Bank ResRep told Emboffs separately that the joint World Bank/IMF meeting with Finance Minister Esseme Menye had gone very badly. The Minister offered several inconsistent and not very convincing explanations for why the GRC was buying a new airplane, probably reflecting his own lack of involvement in the decision to do so. (The Bank shares our view that the plane is being bought for use by President Biya). Menye also admitted to \$100 million of unaccounted for expenditures on the SNH (National Hydrocarbon Company - the oil parastatal) budget, saying he could not explain them. World Bank Res Rep admitted that the lack of progress and responsiveness on public sector finance and corruption raised doubts about the effectiveness about their own programs in Cameroon. Given the unanimous, high level of frustration around the table of donors, we will look for ways to step up the pressure on the GRC, directly and in tandem with others here, to make progress on governance and the economy.

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